

# Japan's Economy and Monetary Policy

*Speech at a Meeting with Business Leaders in Ehime*

February 5, 2020

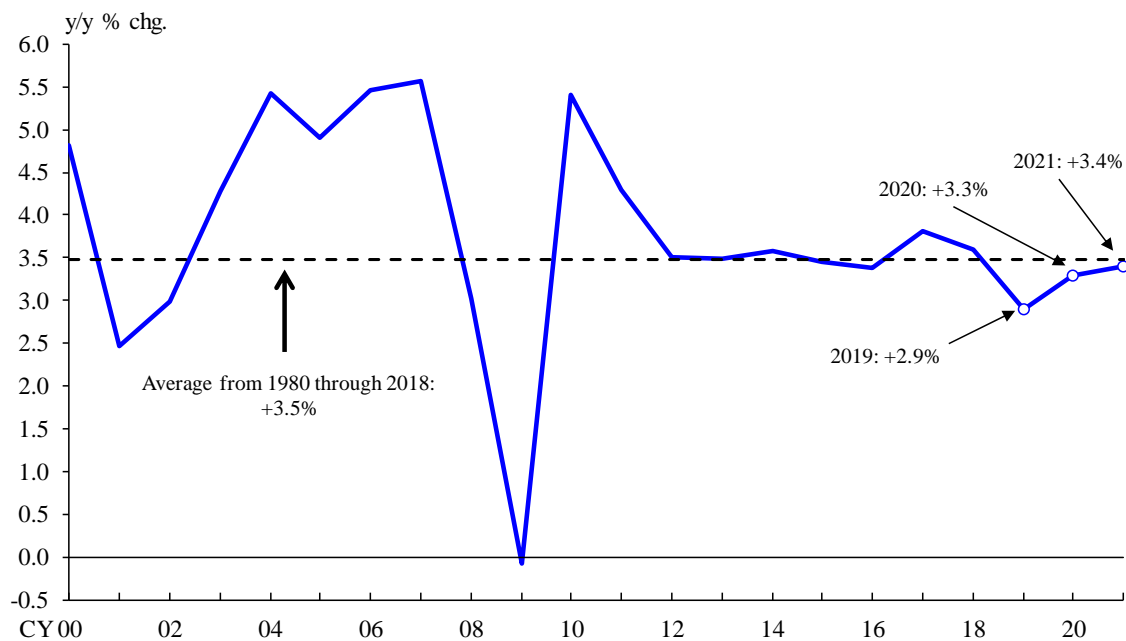
WAKATABE Masazumi

*Deputy Governor of the Bank of Japan*

## I. Financial and Economic Developments

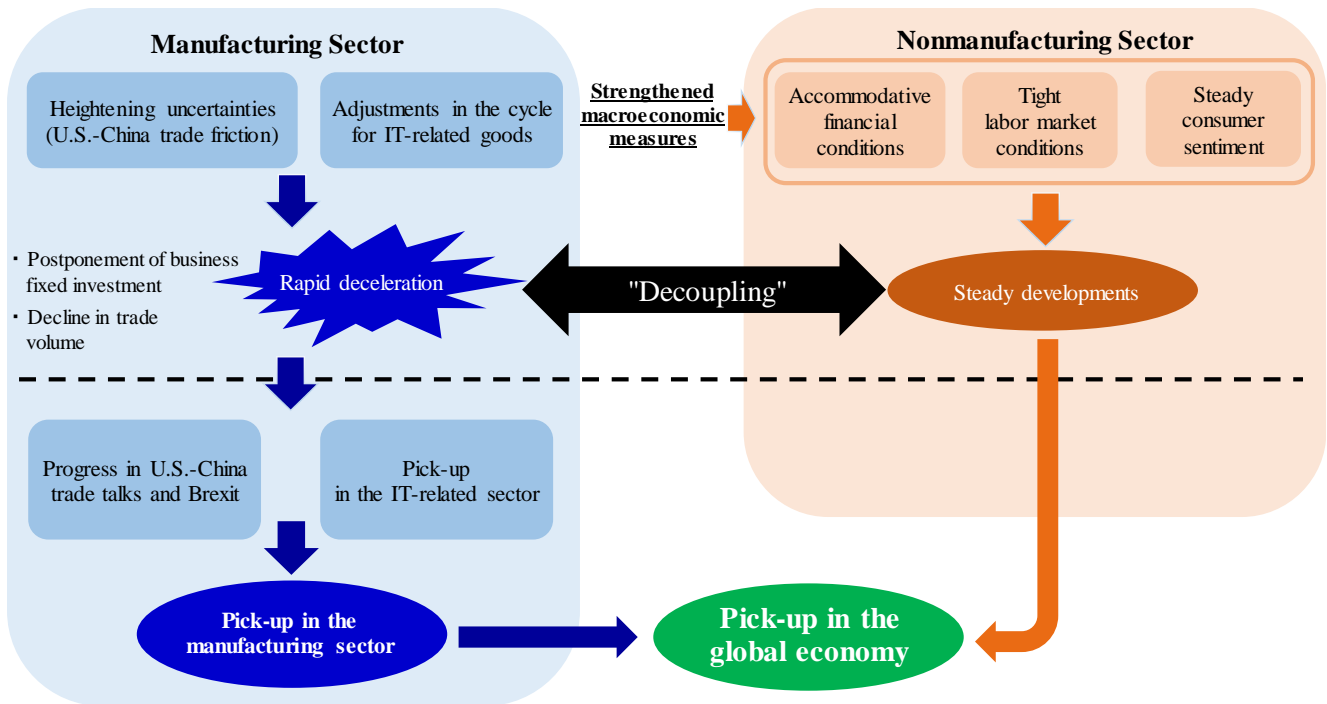
Chart 1

### Global Growth Rate



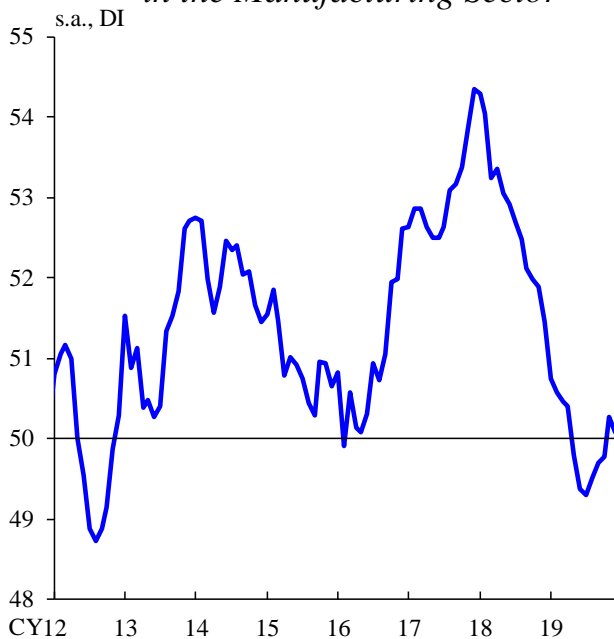
Note: Figures for 2020 and 2021 are the IMF's projections as of January 2020.  
Source: IMF.

## Global Decoupling between the Manufacturing and Nonmanufacturing Sectors

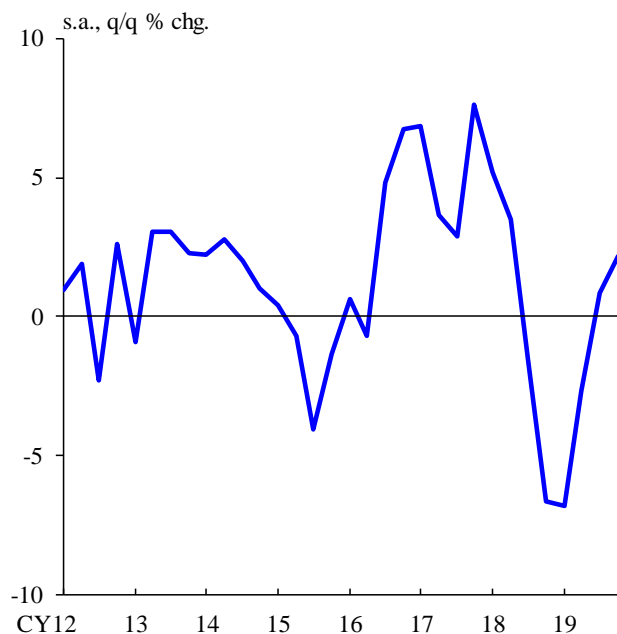


## Developments in the Global Manufacturing Sector

*Global Business Sentiment in the Manufacturing Sector*



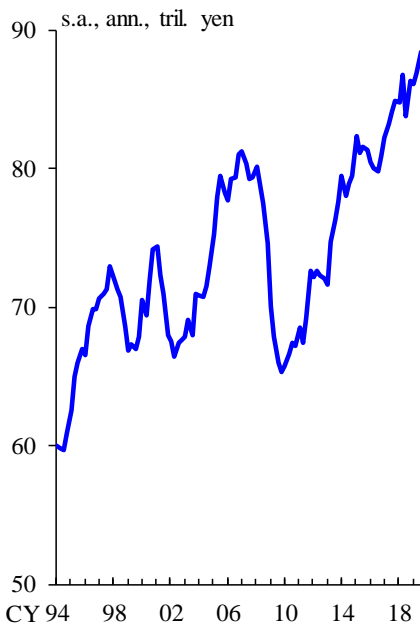
*World Semiconductor Shipments*



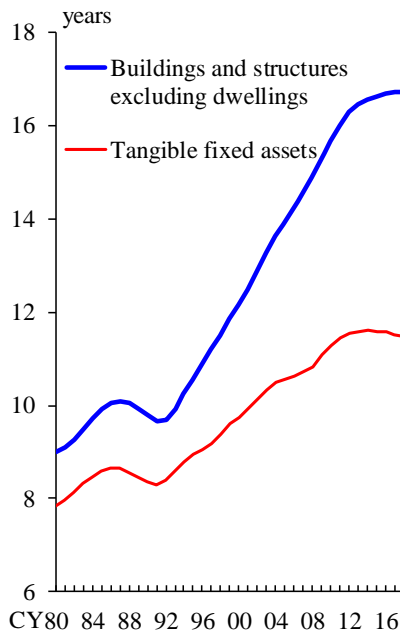
Notes: 1. In the left chart, figures are for the "J.P. Morgan Global Manufacturing PML"  
 2. In the right chart, figures are based on BOJ staff estimates using WSTS data.  
 Source: IHS Markit (© and database right IHS Markit Ltd 2020. All rights reserved.).

## Business Fixed Investment

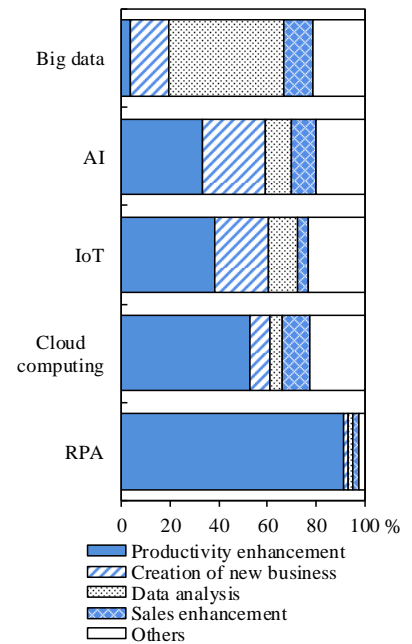
*Real Business Fixed Investment*



*Average Age of Fixed Capital Stock*



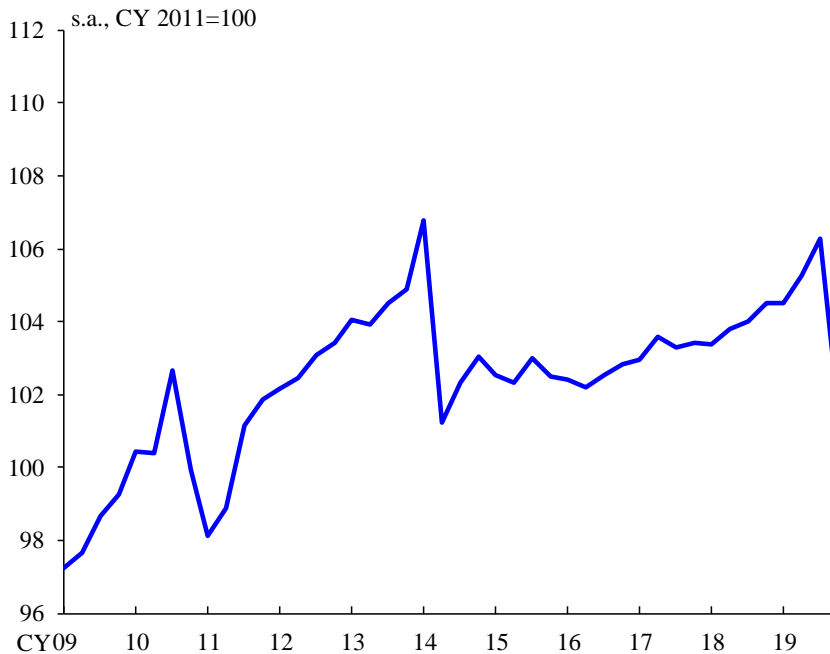
*Firms' Use of Information Technology*



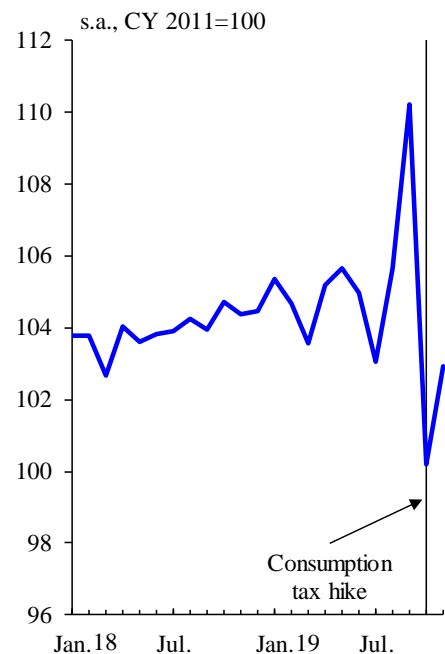
Notes: 1. For details relevant to the middle chart, see BOX 3 in the January 2020 Outlook Report.  
 2. In the right chart, figures are from the survey for fiscal 2018. For details, see BOX 3 in the January 2020 Outlook Report.  
 Sources: Cabinet Office; Research Institute of Economy, Trade and Industry; Ministry of Internal Affairs and Communications; Japan Users Association of Information Systems.

## Private Consumption

*Long-Term Developments (Quarterly)*



*Recent Developments (Monthly)*



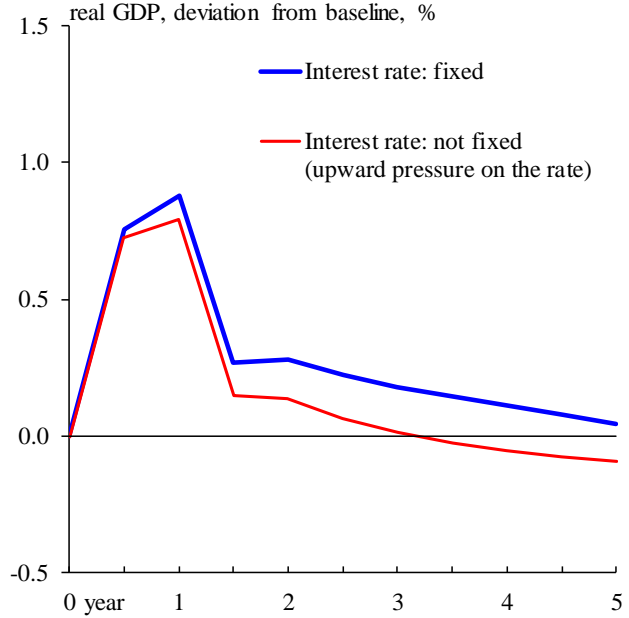
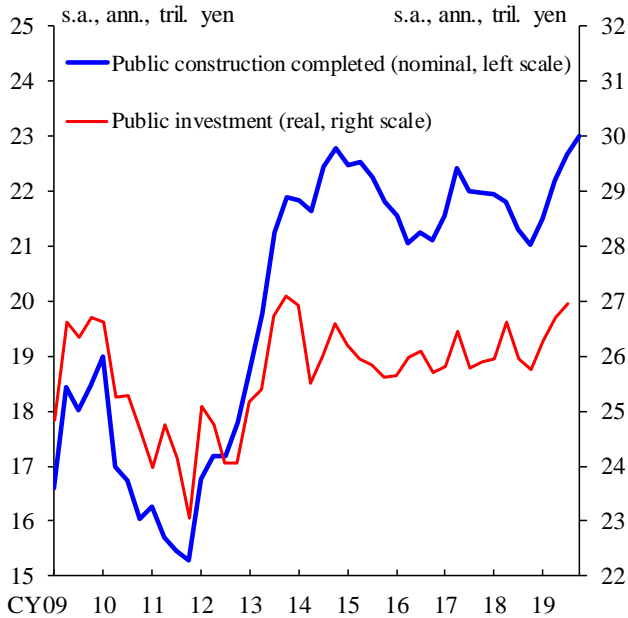
Note: Figures are for the Consumption Activity Index (travel balance adjusted, real). They exclude inbound tourism consumption and include outbound tourism consumption.  
 Sources: Bank of Japan, etc.

# Government Spending

## Public Investment

## Simulation

<Case: Public Investment Increases by 1% of Nominal GDP during the First Year>

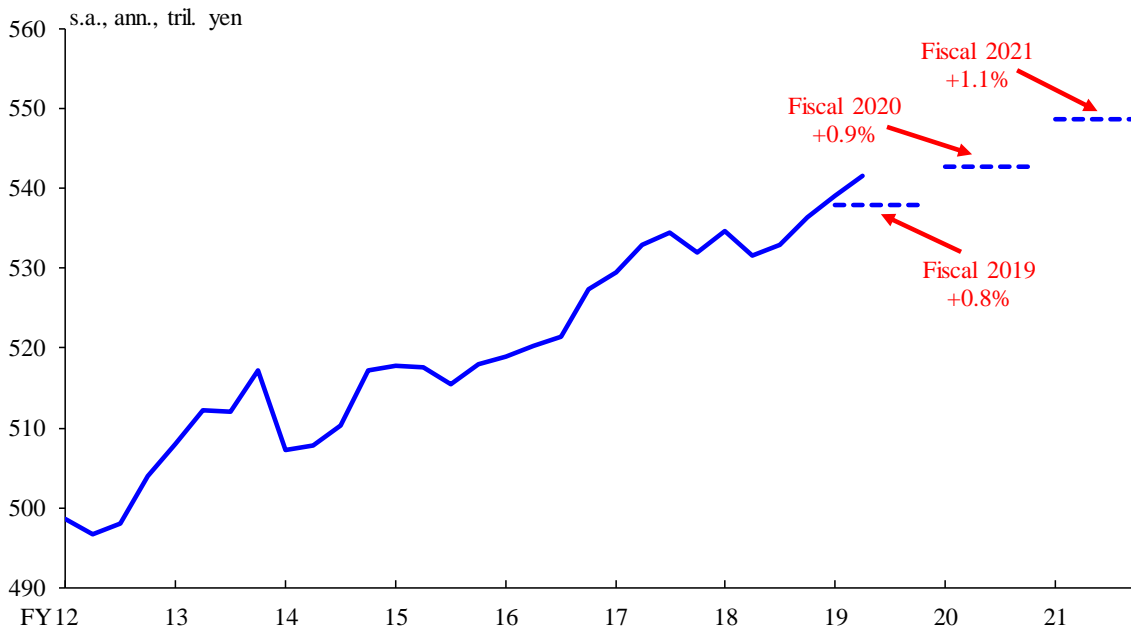


Note: For details relevant to the right chart, see BOX 1 in the January 2020 Outlook Report.  
Sources: Cabinet Office; Ministry of Land, Infrastructure, Transport and Tourism; Bank of Japan, etc.

# BOJ's Economic Forecasts

## Real GDP

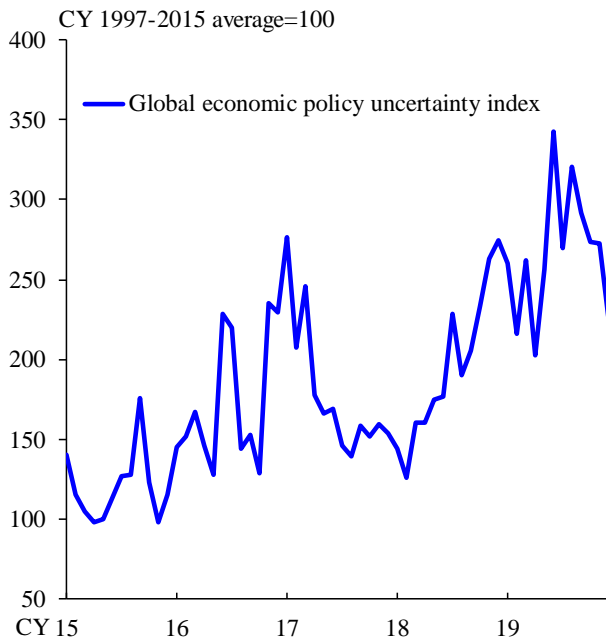
<January 2020 Outlook Report>



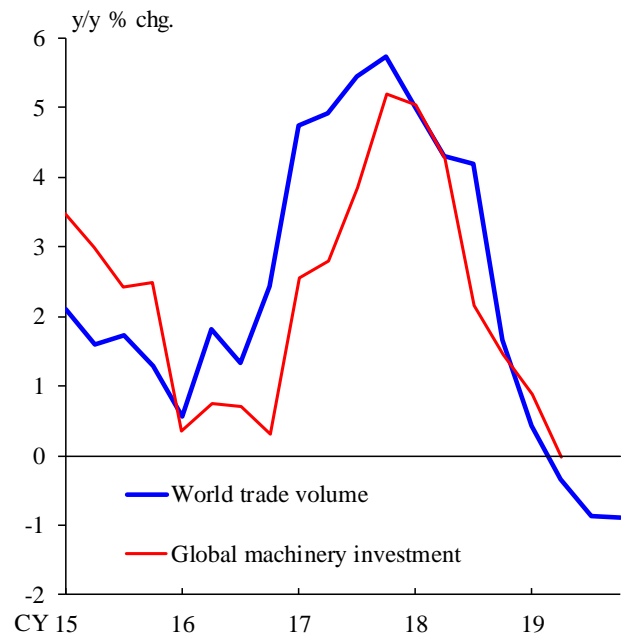
Note: Forecasts are the medians of the Policy Board members' forecasts (point estimates).  
Sources: Cabinet Office; Bank of Japan.

## Uncertainties regarding Overseas Economies

*Policy Uncertainty Index*



*World Trade Volume and Global Machinery Investment*

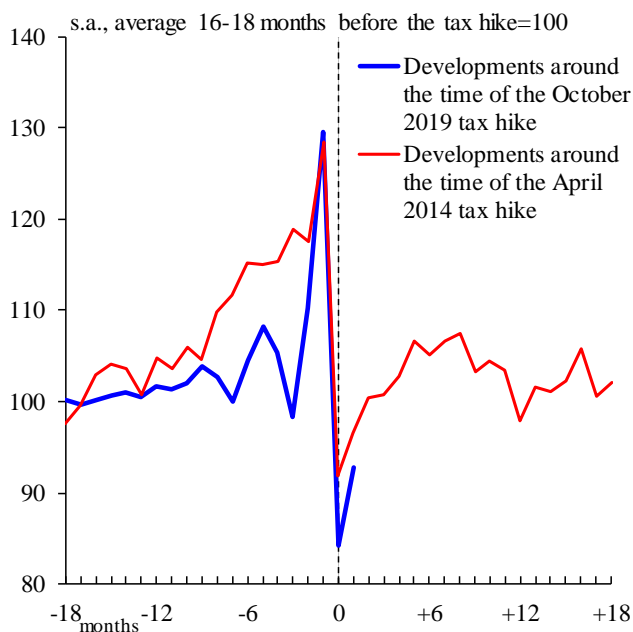


Note: In the right chart, figures for world trade volume are for real imports.  
Sources: Economic Policy Uncertainty; CPB Netherlands Bureau for Economic Policy Analysis; IMF.

## Developments in Private Consumption before and after the Consumption Tax Hikes

*Durable Goods*

(Automobiles + Household Electrical Appliances)



*Nondurable Goods*

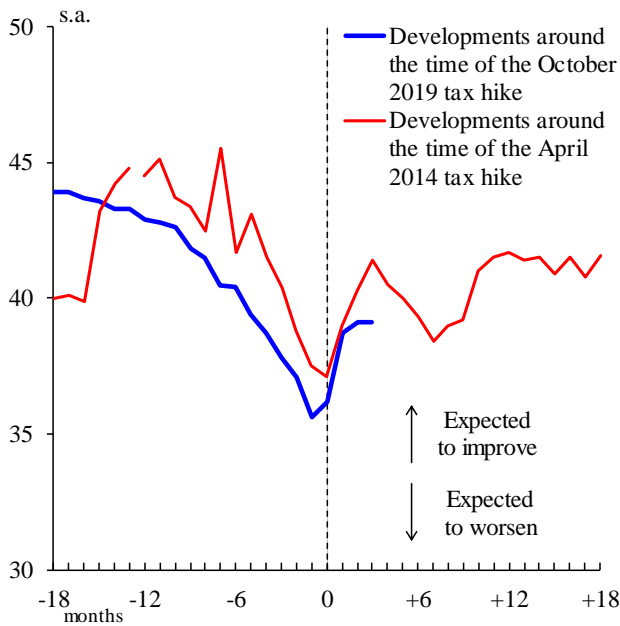
s.a., average 16-18 months before the tax hike=100



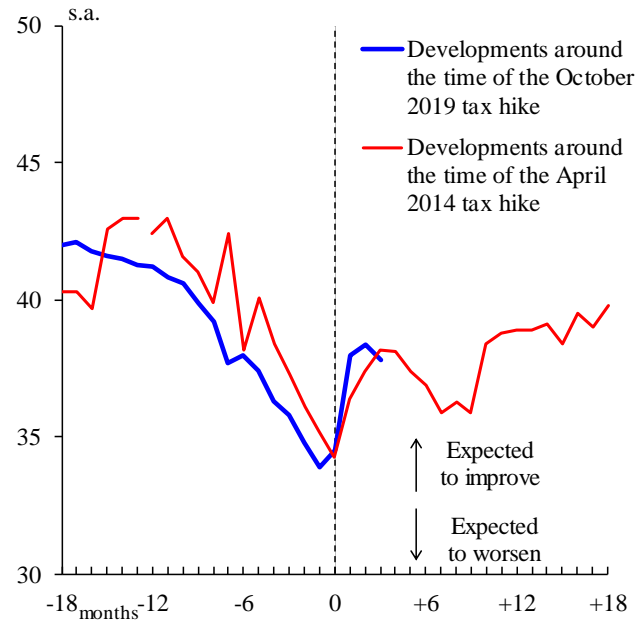
Notes: 1. Month 0 is the month in which the consumption tax rate was raised -- namely, April 2014 or October 2019.  
2. In the right chart, nondurable goods include goods classified as "semi-durable goods" in the SNA.  
Sources: Bank of Japan, etc.

## Developments in Consumer Sentiment before and after the Consumption Tax Hikes

*Consumer Confidence Index*



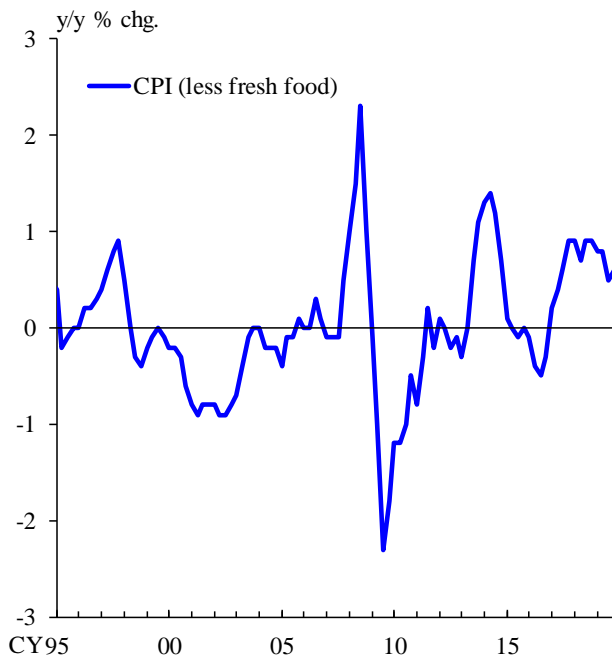
*Overall Livelihood (Consumer Confidence Index)*



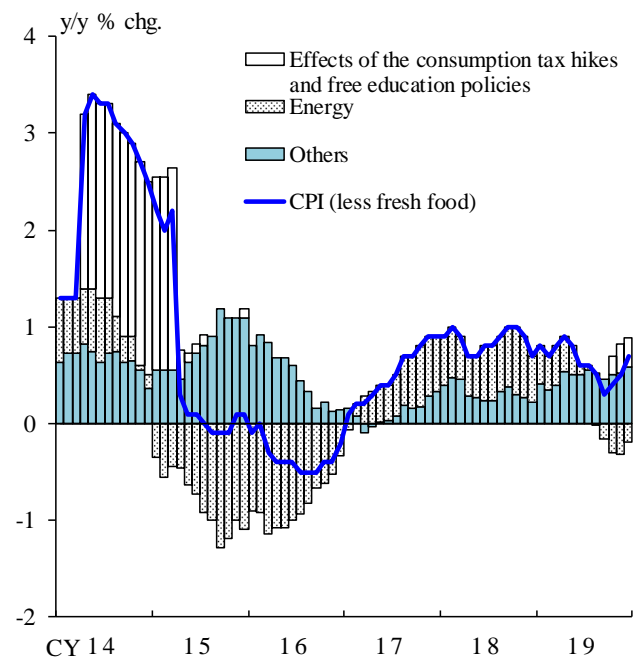
Notes: 1. Month 0 is the month in which the consumption tax rate was raised -- namely, April 2014 or October 2019.  
2. There is a discontinuity in the data in April 2013 due to a change in the survey method.  
Source: Cabinet Office.

## Consumer Prices

*Long-Term Developments*



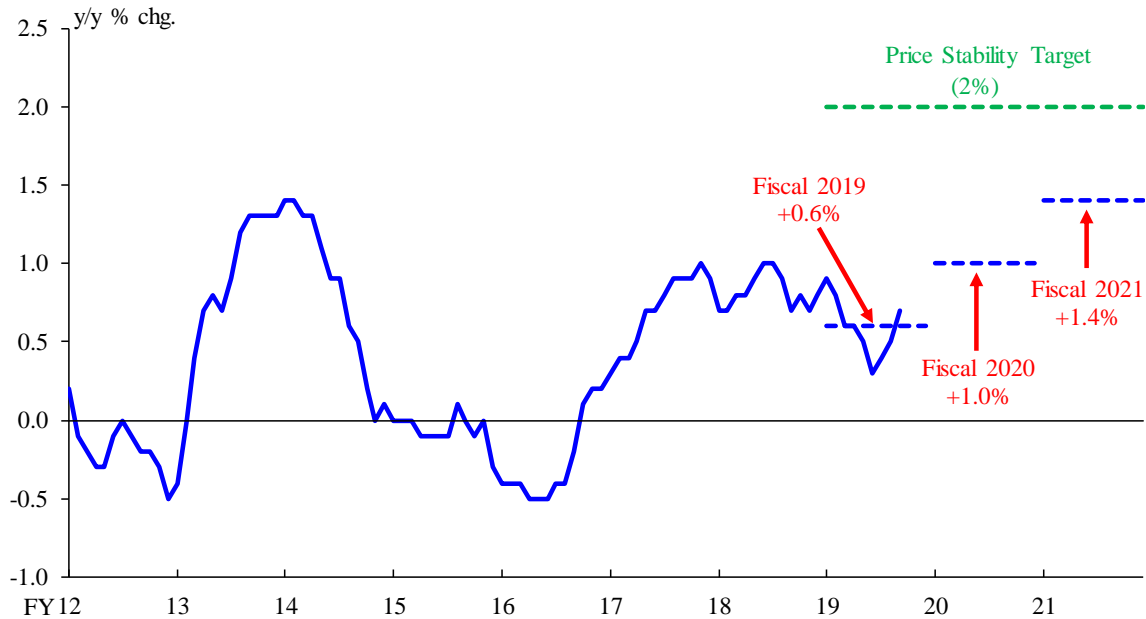
*Recent Developments*



Note: In the left chart, figures exclude the effects of the consumption tax hikes. They incorporate the effects of the October 2019 tax hike and policies concerning the provision of free education.  
Source: Ministry of Internal Affairs and Communications.

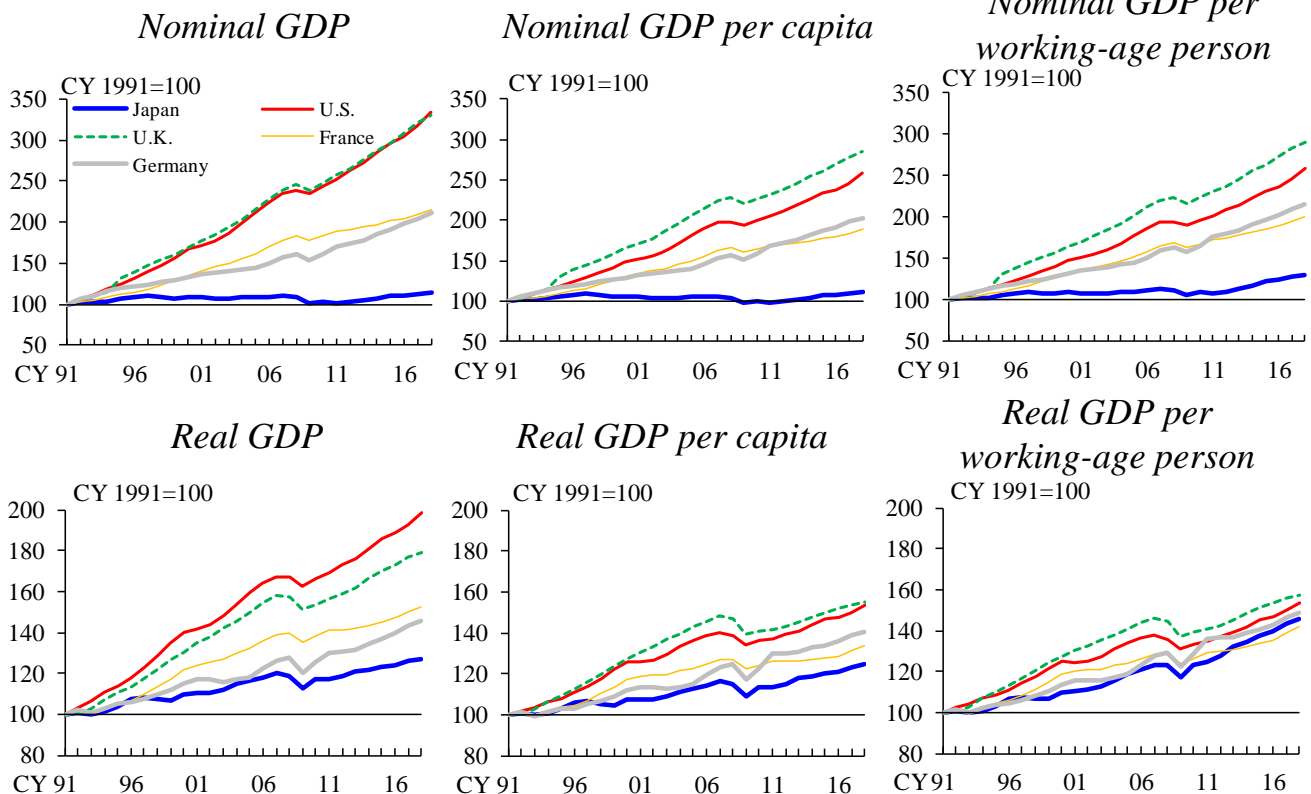
## BOJ's Price Forecasts

*CPI (All Items Less Fresh Food)*  
 <January 2020 Outlook Report>



Note: Figures exclude the effects of the consumption tax hike in April 2014. Forecasts are the medians of the Policy Board members' forecasts (point estimates).  
 Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

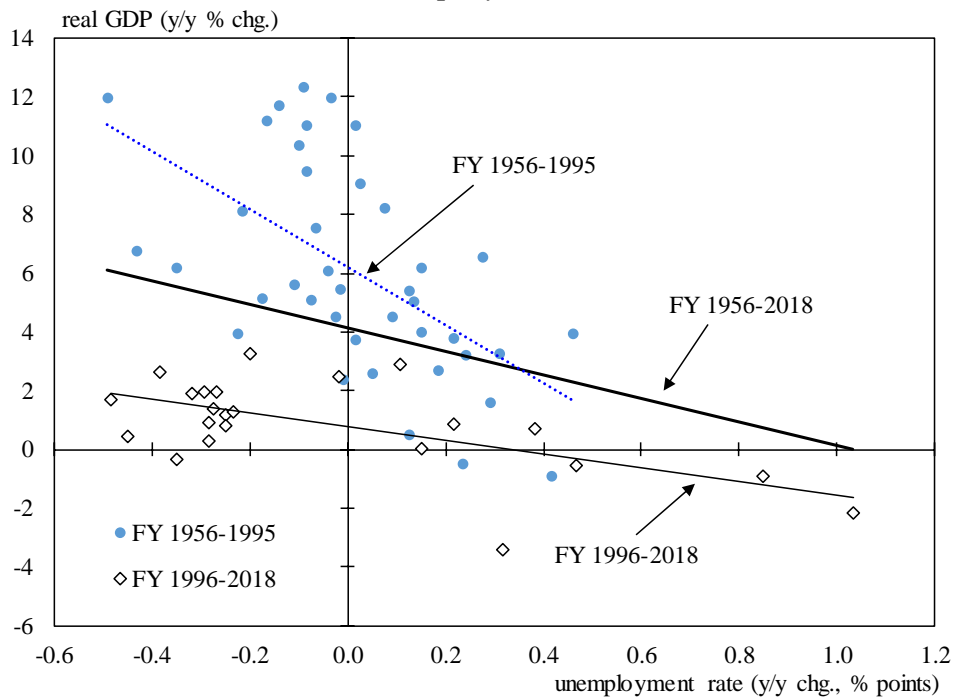
## International Comparison of GDP



Source: World Bank.

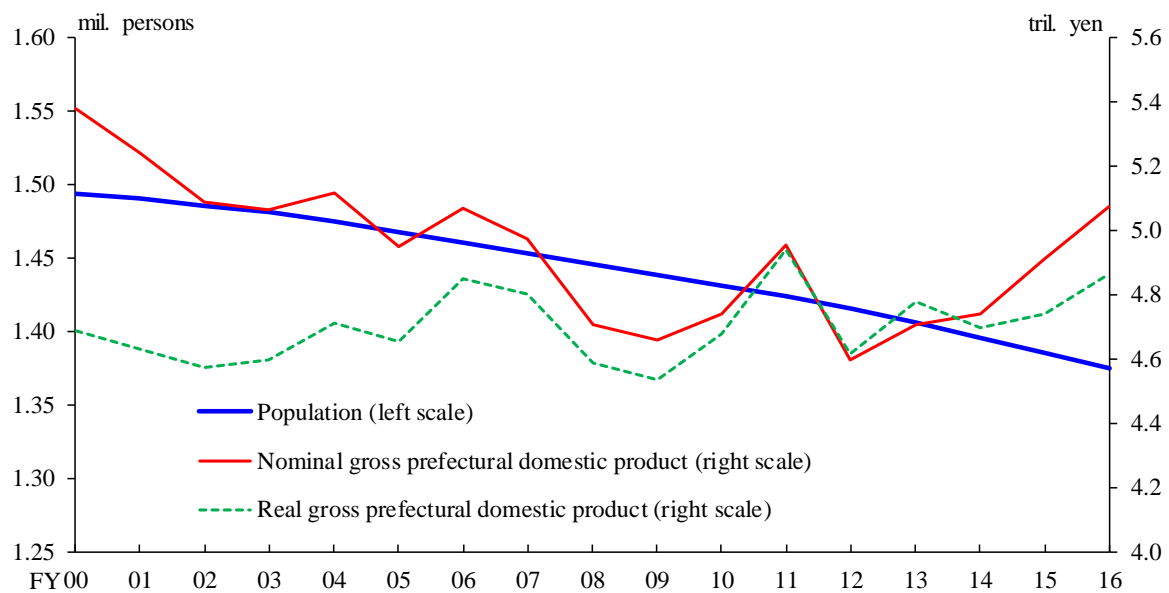
### Okun's Law

*Relationship between Economic Growth Rate and Unemployment Rate*



Sources: Cabinet Office; Ministry of Internal Affairs and Communications.

### Total Population and Gross Domestic Product of Ehime Prefecture

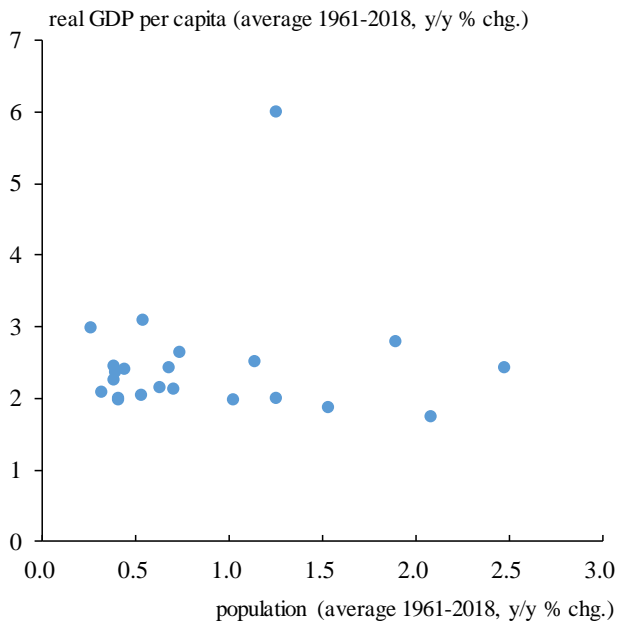


Source: Cabinet Office.

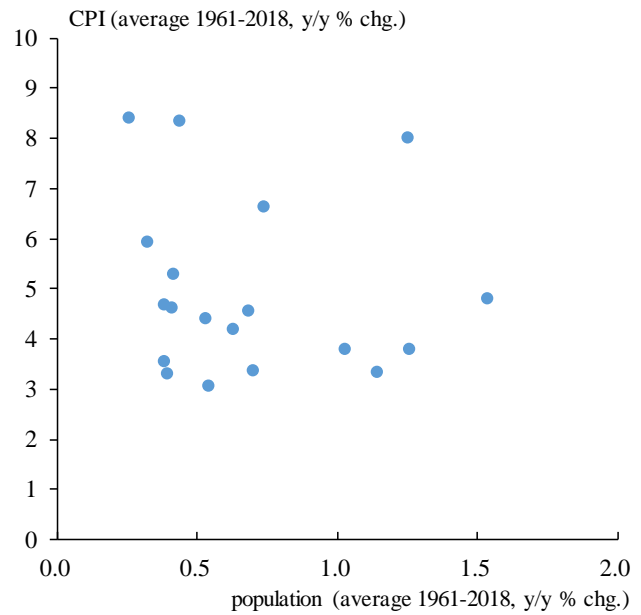


## Relationships between Population Growth and GDP/Inflation

*Population Growth and GDP Growth per Capita*



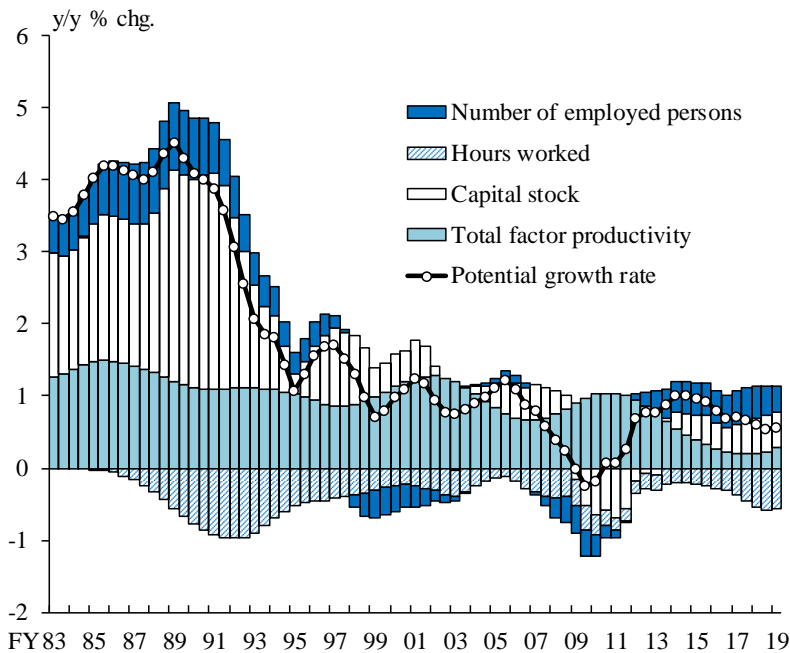
*Population Growth and Inflation*



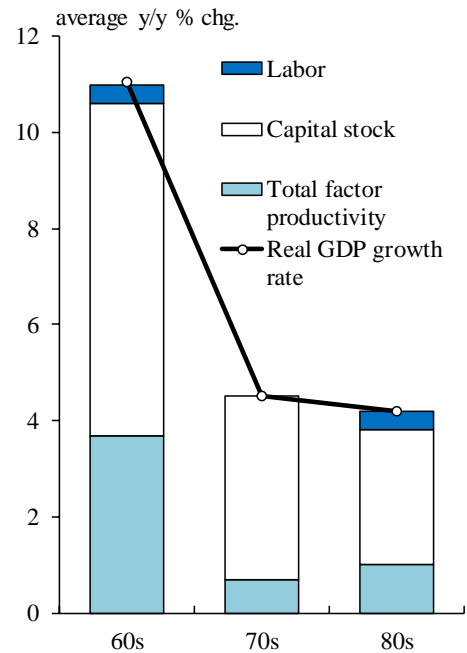
Notes: 1. Figures are those of 22 OECD member countries for which data from 1961 onward are available.  
 2. In the right chart, figures for Israel, Mexico, and Turkey, of which inflation rates are above 10 percent, are not shown.  
 Source: World Bank.

## Potential Growth Rate

*Recent Developments*

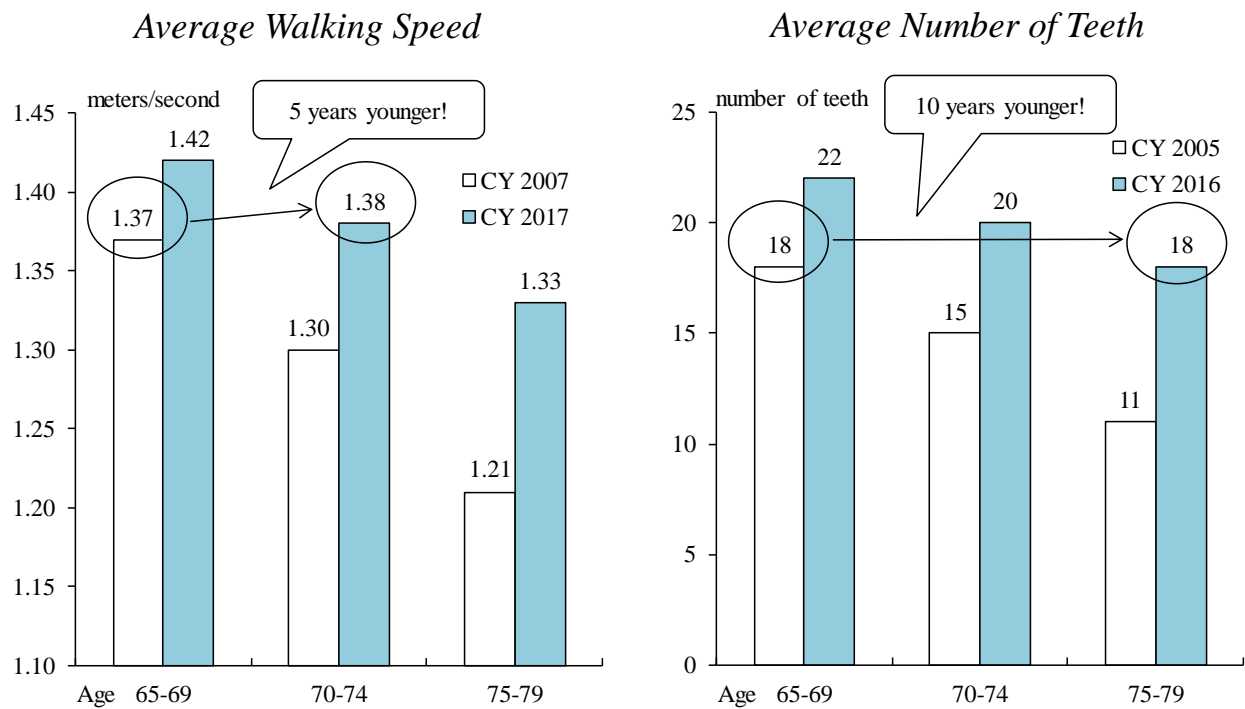


*Developments in the 1960s-80s*



Note: In the right chart, figures are from the "White Paper on International Economy and Trade 1998."  
 Sources: Ministry of International Trade and Industry; Bank of Japan.

## Evidence of Slowdown in Physical Aging



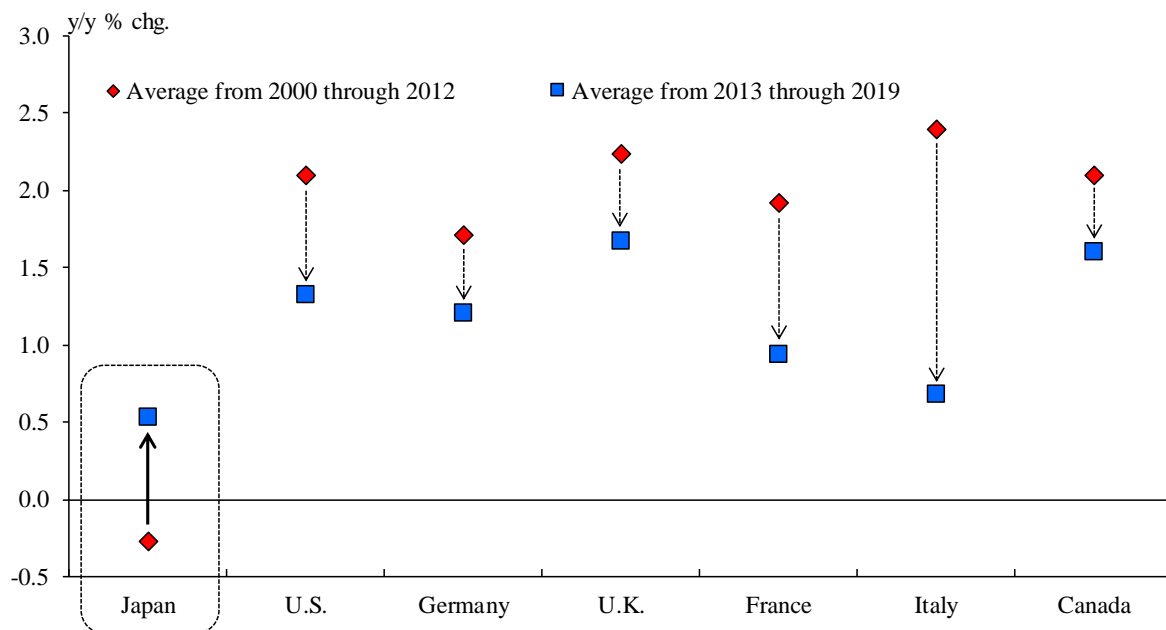
Notes: 1. See Toshitaka Sekine, "Does Demography Really Matter?," presentation at the G20 Symposium titled "For a Better Future: Demographic Changes and Macroeconomic Challenges," 2019.

2. In the left chart, average walking speed is the arithmetic average of men's and women's walking speeds.

Sources: National Center for Geriatrics and Gerontology; Ministry of Health, Labour and Welfare.

## Conclusion

## Price Developments in G7 Countries



Notes: 1. Figures for Japan are the CPI (excluding the effects of the April 2014 consumption tax hike and incorporating the effects of the October 2019 tax hike and policies concerning the provision of free education); those for U.K. and Canada are the CPI; those for U.S. are the PCE deflator; and those for the euro area countries are the HICP.

2. The figure for the U.S. for 2019 is the January-November average.

Sources: Ministry of Internal Affairs and Communications; Haver.